Annual Report 1971

QSP LTD LTÉE

DIRECTORS

Robert H. Alrod
Myer Deitcher
L. Lamont Gordon
Gerald J. Josephson
Saul Josephson
Cyril R. Snell
Alvin J. Walker

OFFICERS

Saul Josephson, Chairman of the Board
Gerald J. Josephson, President
Robert H. Alrod, Executive Vice President
Cyril R. Snell, Vice President
George S. Grostern, C.A., Secretary-Treasurer

TRANSFER AGENT AND REGISTRAR

Montreal Trust Company, Montreal

AUDITORS

Richter, Usher & Vineberg
Chartered Accountants, Montreal—Toronto

GENERAL COUNSEL

Mendelson, Selick, Gross and Pinsky, Montreal

LISTED

Montreal Stock Exchange (Symbol—QSP)

Report to the Shareholders

To The Shareholders:

Your Company has completed a year which was characterized by unexpected and unforseeable problems, which were counter-balanced by events of great and exciting prospect.

The worst winter in memory virtually paralyzed our scrap operations for close to six weeks. A year-end labour strike had the same effect on our Harris Steel and Steel Service Divisions for most of November and December. The Quebec Government sponsored Steel Mill — Sidbec — our scrap steel operation's major account, terminated its contractual arrangements with us, on short notice, with the result that our scrap sales suffered considerably before we could establish new replacement markets. This we have done, and are continuing to do, with considerable success and to your Company's long-term benefit and security.

The prospect of which we spoke in the opening paragraph of this message is one on which we have spent considerable study, energy, time, and money from the middle of 1971. We expect to announce this project to you and the public sometime in the second quarter of 1972, and we are certain that you will be as pleased with it and its profitable promise, as are we.

Financial:

While revenues in the Scrap Steel Divisions were down, their effect on consolidated results were somewhat offset by increases in the New Steel Divisions. Total gross revenue was $25,387,685 compared to last year's $29,084,268.

Scrap Steel Divisions:

As indicated previously, many factors combined to produce an unsatisfactory year for the Scrap Steel Divisions. In fact, the industry generally suffered a poor year with domestic and export selling prices drastically reduced. Since the year end, however, world prices have increased and are expected to continue upward over the short to long term.

Overall tonnages shipped during the year to export markets were favourably comparable to the previous year, although dollar volumes were down because of price erosion. We anticipate an improvement in this situation in the current year in both dollar and tonnage volume.

New Steel Divisions:

The MacKinnon Structural Steel Division continues to improve its position. This Division has undergone extensive reorganization, the results of which will continue to reflect favourably. We believe that this is a major accomplishment considering the magnitude of the problems which have been overcome in such a short period of time.

This Division is actively engaged in the supply of structural steel to major construction projects in Quebec and the New England States. It is anticipated that the continuing upsurge in heavy construction will result in increased volumes in the current year. Substantial contracts are presently on hand.

During the year under review, the warehouse operations were halted by the long strike which disrupted the orderly flow of material to customers and caused cancellation of contracts.

The backlog of orders going into 1972 were substantially higher than in the previous year. New construction in Montreal, either under way or contemplated, should enable us to complete a very satisfactory year in the New Steel Divisions.

Industrial and Chemical Division:

The Industrial and Chemical Division, established in 1971, performed well and met its projected sales volumes. The initial impact on the market has been favourable and we anticipate that this Division will continue to improve in sales and service to industrial customers.

Outlook:

1972 has begun on a promising and positive note for QSP.

Scrap steel prices have begun to recover, and are significantly on the rise, and the general feeling in the areas of our new steel operations is one of buoyancy and optimism.

The seeds we have sown in 1971 should certainly bear fruit in 1972, and the future looks most exciting, indeed.

On behalf of the Board of Directors, I gratefully acknowledge the efforts of our many employees and associates during a difficult year, and look forward to their continued cooperation and loyalty in the future.

March 30, 1972

Saul Josephson,
Chairman

Gerald J. Josephson,
President

Consolidated Statement of Operations

For the year ended December 31, 1971
(With Comparative Figures for 1970)

	1971	1970
GROSS REVENUE FROM OPERATIONS	$25,387,685	$29,084,268
OPERATING INCOME, BEFORE THE UNDERNOTED ITEMS	11,036	1,771,056
Depreciation	614,075	535,478
Interest on term debt	103,152	54,831
	717,227	590,309
(LOSS) EARNINGS BEFORE INCOME TAXES	(706,191)	1,180,747
(Recovery) provision for income taxes (Note 6)		
Current	(181,912)	447,800
Deferred	(181,600)	166,400
	(363,512)	614,200
NET (LOSS) EARNINGS BEFORE EXTRAORDINARY ITEMS	(342,679)	566,547
Extraordinary items (Note 10)	(28,000)	245,400
NET (LOSS) EARNINGS	$ (314,679)	$ 811,947
NET (LOSS) EARNINGS PER COMMON SHARE (Note 11)		
Before extraordinary items	(0.57)	1.15
Extraordinary items	0.05	.49
Net (loss) earnings	(0.52)	1.64

See accompanying notes to consolidated financial statements

Consolidated Statement of Retained Earnings

For the year ended December 31, 1971
(With Comparative Figures for 1970)

	1971	1970
Balance — beginning of year		
As previously reported	$1,993,355	$1,305,988
Adjustment of prior years' income (Note 14)	33,745	21,265
Adjustment of deferred income taxes	–	(123,000)
As restated	2,027,100	1,204,253
Net (loss) earnings for the year	(314,679)	811,947
Transfer from preference share sinking fund reserve	–	10,900
BALANCE — END OF YEAR	$1,712,421	$2,027,100

See accompanying notes to consolidated financial statements

QSP LTD LTÉE
and its subsidiary companies

Consolidated Balance Sh

(With Comparati

Assets

CURRENT	1971	1970
Cash	$ 130,565	$ 43,595
Marketable securities, at cost (Quoted values — $88,666 and $38,813 respectively)	55,566	43,302
Accounts receivable, less allowance for doubtful accounts	4,342,300	4,486,174
Income taxes recoverable	210,971	—
Inventories, at the lower of cost or net realizable value (Note 2)	5,746,043	5,199,761
Prepaid expenses	48,844	59,722
	10,534,289	9,832,554
FIXED (Note 3)	4,891,908	4,869,993
OTHER		
Loans receivable	21,789	21,789
Unamortized mortgage loan discount	16,568	19,850
	38,357	41,639
EXCESS OF COST OF INVESTMENTS IN SUBSIDIARY COMPANIES OVER THEIR NET BOOK VALUE AT TIME OF ACQUISITION (Note 1)	3,617,760	3,617,760
	$19,082,314	$18,361,946

Approved on behalf of the Board:
Saul Josephson, Director
Gerald J. Josephson, Director

t as at December 31, 1971

ures for 1970)

Liabilities

CURRENT

	1971	1970
Bank advances (Note 4)	$4,704,793	$3,388,582
Accounts payable	3,548,064	3,427,349
Income taxes payable	2,376	168,569
Term debt, current maturity	333,204	266,243
	8,588,437	7,250,743
TERM DEBT (Note 5)	675,656	796,703
DEFERRED INCOME TAXES (Note 6)	107,800	289,400
	9,371,893	8,336,846

Shareholders' Equity

CAPITAL STOCK (Note 7)

Authorized:

1,000,000 common shares of no par value

1,690 5% cumulative, redeemable, sinking fund first preference shares of $100 each

25,000 second preference shares of $100 each (convertible at any time into common shares on basis of 1 second preferred share into 4 common shares)

	1971	1970
Issued:		
579,500 common shares	7,998,000	7,998,000
RETAINED EARNINGS (Note 8)	1,712,421	2,027,100
	9,710,421	10,025,100
	$19,082,314	$18,361,946

See accompanying notes to consolidated financial statements

Consolidated Statement of Source and Use of Funds

For the year ended December 31, 1970
(With Comparative Figures for 1970)

	1971	1970
FUNDS PROVIDED		
Operations		
Net (loss) earnings for the year	$ (314,679)	$ 811,947
Charges (credits) to earnings not involving an outlay (source) of funds –		
Depreciation	614,075	535,478
(Decrease) increase in deferred income taxes	(181,600)	166,400
Amortization of mortgage loan discount	3,282	2,399
	121,078	1,516,224
Proceeds from issue of common stock, net of related expenses	–	1,694,500
Increase in term debt	224,142	614,817
Reduction in mortgage receivable	–	21,316
Adjustment of prior years' income	–	21,265
	345,220	3,868,122
FUNDS USED		
Net additions to fixed assets	635,990	1,323,329
Reduction in term debt	345,189	349,294
Investment in subsidiary companies	–	569,500
Working capital deficiency of subsidiary company at acquisition	–	50,315
Redemption of preference shares	–	10,900
Loan receivable	–	21,789
Increase in unamortized mortgage loan discount	–	6,300
	981,179	2,331,427
(DECREASE) INCREASE IN WORKING CAPITAL	(635,959)	1,536,695
Working capital – beginning of year	2,581,811	1,045,116
WORKING CAPITAL – END OF YEAR	$1,945,852	$2,581,811

See accompanying notes to consolidated financial statements

Notes to Consolidated Financial Statements

December 31, 1971

The following notes are applicable to the financial statements as at December 31, 1971. Reference is made to the previously issued report for the notes applicable to the statements as at December 31, 1970.

Note 1 — Principles of Consolidation

The consolidated financial statements are prepared in accordance with generally accepted accounting principles and include the accounts of all subsidiary companies. The cost of shares of the subsidiaries exceeds the book values of such shares at the dates of acquisition by $3,617,760. This amount has been included under the caption "Excess of Cost of Investments in Subsidairy Companies over their Net Book Value at Time of Acquisition" and is not being amortized. All significant inter-company transactions have been eliminated upon consolidation.

In the consolidation, the assets of a subsidiary have been revalued to reflect the cost of acquiring the shares and the excess of book value over cost has been allocated in reduction of the land, building and equipment. Income tax credits arising from utilization of capital cost allowance on amounts in excess of cost are being credited to earnings by an appropriate credit as an extraordinary item.

Note 2 — Inventories

a) Inventories are valued principally at the lower of average cost or net realizable value.

b) With respect to inventories of scrap metal, representing approximately 40% of the total inventories, quantities have been determined by reference to perpetual inventory records and substantiated by estimates of independent surveyors.

Note 3 — Fixed Assets

a) Fixed assets are carried at cost, and are classified as follows:

	1971	1970
Land	$ 786,491	$ 764,037
Buildings and building improvements	1,660,446	1,642,270
Machinery, equipment and cranes	5,374,546	4,857,250
Vehicles	352,209	362,578
Roadway, siding and fence	175,717	172,615
	8,349,409	7,798,750
Accumulated depreciation	3,457,501	2,932,027
	4,891,908	4,866,723
Deposits on land and building	—	3,270
	$4,891,908	$4,869,993

b) Depreciation has been recorded on a basis calculated to amortize the cost of the assets over their estimated useful lives.

Note 4 — Bank Advances

Accounts receivable and a debenture in the amount of $3,500,000, which provides a floating charge on all of the assets of the company, are pledged as security for bank advances.

Note 5 — Term Debt

Term debt comprises the following:

7-1/2% mortgage, maturing July 1, 1973, payable by annual instalments of $15,000 and a final instalment of $20,000	$ 35,000
7-1/2%mortgage, maturing July 1, 1973, payable by annual instalments of $5,000 and a final instalment of $4,000	9,000
7-1/2% mortgage loan, maturing in 1981, payable by 11 annual instalments varying from $11,000 to $20,000	152,000
Unsecured loan payable, due subsequent to 1972	58,000
10-1/2% mortgage loan, maturing February 1, 1976, payable by monthly instalments of $3,849, including principal and interest	156,015
Accounts payable, secured by liens on machinery	598,845
	1,008,860
Current maturity	333,204
	$ 675,656

Note 6 — Income Taxes

i) The company follows the income tax allocation basis of accounting, whereby the provision for income taxes relates to the accounting income for the period. The accumulated tax reductions applicable to future years, resulting from claiming tax depreciation in excess of book depreciation, appears in the balance sheet under "Deferred Income Taxes".

ii) As referred to in Note 1, the undepreciated capital cost allowance of the fixed assets exceeds the carrying value of these assets by an amount of approximately $569,000; capital cost allowance on such excess is available for application to future years' earnings for income tax purposes.

iii) As at December 31, 1971, there were approximately $37,000 of losses which may be applied against earnings of future years, not later than 1976.

Note 7 — Capital Stock

On September 3, 1971, the company revised its stock option plan, established for certain employees (including

the executives) of the company, whereby 20,500 of the authorized and unissued common shares of the company were reserved for issue through the period ending May 1, 1975 at $11.50 per share, in accordance with the provision of the plan. The options are exercisable to the extent of 33-1/3% of the shares subject to option each year; these options are cumulative and are contingent upon employment at the option date.

Note 8 — Retained Earnings

The balance of retained earnings includes an amount of $25,300 set aside in the accounts, as required by law, equal to the par value of preference shares redeemed to date.

Note 9 — Contingent Liabilities

The company is contingently liable in amounts aggregating approximately $20,000, representing claims lodged against the company, including legal and court costs. The company is resisting liability and, accordingly, no provision has been made in the accounts.

Note 10 — Extraordinary Items

Extraordinary items in the statement of operations consist of the following:

	1971	1970
Income tax credit from utilization of capital cost allowance in excess of cost	$25,800	$ —
Recovery of income taxes on application of prior years' losses	2,200	234,900
Foreign exchange gain arising from the unpegging of the Canadian dollar on June 1, 1970, less applicable income taxes	—	10,500
	$28,000	$245,400

Note 11 — (Loss) Earnings per Common Share

Assuming full dilution through the exercise of options, (loss) earnings per common share would be as follows:

	1971	1970
Before extraordinary items	(0.55)	1.11
Extraordinary items	.05	.47
Net (loss) earnings	(0.50)	1.58

Net (loss) earnings used in this calculation reflects a reduction in interest costs, imputed earnings on exercise of the common share options and the related effect on income taxes resulting from the above assumption.

Note 12 — Statutory Information

The nine directors (seven of whom were officers) of the company and its subsidiaries received no remuneration as directors. All of the officers of the company and its subsidiaries are paid by one of the subsidiaries; the aggregate remuneration in 1971 of those seven officers as officers was $224,999 (1970 — $187,702).

Note 13 — Comparative Figures

Certain of the 1970 comparative figures in the consolidated financial statements have been reclassified to conform with the 1971 presentation.

Note 14 — Prior Period Adjustment

Net earnings for 1970 have been restated to reflect the recovery of municipal taxes and interest thereon by one of the subsidiary companies, and retained earnings at December 31, 1969 have been restated to reflect the recovery applicable to prior years.

Auditors' Report

To the Shareholders of
QSP Ltd. — QSP Ltée.
and its subsidiary companies

We have examined the consolidated balance sheet of QSP Ltd. — QSP Ltée. and its subsidiary companies as at December 31, 1971 and the consolidated statements of operations, retained earnings and source and use of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these consolidated financial statements present fairly the consolidated financial position of the companies as at December 31, 1971 and the consolidated results of their operations and the source and use of their funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Montreal, Quebec
March 24, 1972

RICHTER, USHER & VINEBERG
Chartered Accountants

Subsidiaries and Divisions

QSP LTD LTÉE

QUEBEC STEEL PRODUCTS LTD., Montreal

- Wholly-owned subsidiary of QSP Ltd.
- Commenced operations in 1957.
- In 1964, the warehouse operations, the Gulf Iron & Metal Division and the Harris Steel Division were combined under its management.

STEEL SERVICE DIVISION, Montreal

- Commenced operations in 1957 as a steel service centre.
- Modern, well equipped, 40,000 sq. ft. warehouse.
- 80,000 sq. ft. outdoor, crane-serviced storage.
- The latest and most sophisticated equipment of its type includes a 1¼" plate shear, 12-torch coordinated drive plate cutting machine, 18" semi-automatic saw, stacker crane, vacuum lift remote control cranes, overhead cranes and plate rolls capable of flattening 2" steel plate in widths up to 100".

STEEL SERVICE DIVISION, Quebec City

- Opened in 1966 to supply fabricated steel to regional industries.
- 8,000 sq. ft. enclosed warehouse facility.
- 10,000 sq. ft. outdoor crane-serviced storage.

HARRIS STEEL DIVISION, Montreal

- Founded in 1959 to service the construction industry in Quebec and Eastern Canada with fabricated reinforcing steel.
- Largest independent operation in Montreal.
- 80,000 sq. ft. facilities.
- Four gantry cranes.
- Electronically controlled cutting and straightening machine and ancillary fabricating equipment.

GULF IRON & METAL DIVISION, Quebec City

- Founded in 1937.
- Processes scrap metals for domestic and export customers.
- Occupies 8 acres on the Quebec City harbour.
- Facilities for loading bulk carrier ocean vessels.
- Equipment includes large hydraulic guillotine scrap shear and gantry and crawler cranes.
- Warehouse facilities for processing non-ferrous metals.

MACKINNON STRUCTURAL STEEL DIVISION, Sherbrooke

- Founded in 1919.
- Fabricates and erects structural steel for major construction projects in Quebec, Ontario, the Maritimes and Northeastern United States.
- 230,000 sq. ft. facilities include 70,000 sq. ft. plant and offices serviced by railway siding.
- Equipment includes 10-ton and 20-ton overhead cranes, wheelabrator equipment for the pre-cleaning of steel and ancillary boring and welding equipment.

LASALLE STEEL INC., Montreal

- Wholly owned subsidiary of QSP Ltd.
- Operations are combined with St. Lawrence Iron & Metal Incorporated.

ST. LAWRENCE IRON & METAL INCORPORATED, Montreal

- Wholly-owned subsidiary of Lasalle Steel Inc.
- Processes secondary materials for re-use by industry.
- 14-acre receiving, processing and shipping facility on Montreal's South Shore adjacent to major access highways serving the Province of Quebec, Eastern Canada and Northeastern United States.
- Located on railway siding with 2 miles of internal track.
- Equipment includes the first fragmentizer unit to be installed in the Province of Quebec, two of the largest hydraulic shears in Canada, gantry and crawler cranes, 60-ton switch locomotive and two mobile crushers with ancillary equipment for off-site processing.

CANAL BANK DIVISION, Montreal

- Founded in 1919.
- Serves as a scrap collection depot for customers in Montreal's West End and the North Shore.
- Occupies 190,000 sq. ft. of land serviced by railway siding.
- Utilizes modern materials handling equipment including 3 cranes, 2 shears and torching equipment.

JESAN INVESTMENT CORP., Montreal

- Wholly owned subsidiary of Quebec Steel Products Ltd.
- Owns real estate upon which the Lachine complex is located.

McGILL AUTO PARK INC., Montreal

- Wholly owned subsidiary of QSP Ltd.
- Tenant-operated, elevator type parking garage with capacity for 250 cars in downtown Montreal.

QSP LTD LTÉE

HEAD OFFICE:
45 St. Joseph Street, Lachine 640, P.Q.
CABLE: Questeel, Montreal.
TELEX: Montreal 05-24272

QSP LTD LTÉE

HEAD OFFICE
45 St. Joseph Street, Lachine 640, P.Q.

DIVISION

MacKinnon Structural Steel Division

SUBSIDIARIES

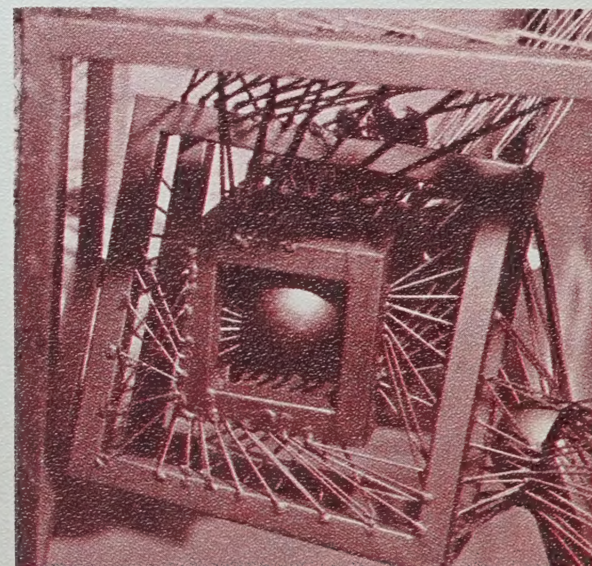
Quebec Steel Products Ltd.
  Steel Service Division
  Harris Steel Division
  Gulf Iron & Metal Division
  Chemicals & Commodities Division
Lasalle Steel Inc.
St. Lawrence Iron & Metal Incorporated
Jesan Investment Corp.
McGill Auto Park Inc.

For checking

QSP LTD LTÉE
and its subsidiary companies

MID-YEAR REPORT

Six Months Ended
June 30, 1971



TO THE SHAREHOLDERS OF
QSP LTD. – QSP LTEE.

The severely depressed domestic and worldwide steel and scrap prices have contributed to an unsettled period for your company. Higher sales but lower earnings were reflected for your company based on operations for the first six months of 1971. Sales totaled $13,341,373 as compared to $12,040,000 in the last comparable period and net earnings were $42,037 or 7 cents per share on 579,500 shares. This compared with $256,300 or 53 cents per share on 479,500 in the first six months of 1970. The company earned in the year 1970 an extraordinary item of $152,600 or 32 cents per share on recovery of tax losses carried forward.

Your company is continuing to build for its expanding program and looks forward to improvements in the near future.

Saul Josephson
Chairman

Gerald J. Josephson
President

Sept. 3, 1971

QSP LTD LTEE

UNAUDITED CONSOLIDATED STATEMENT OF EARNINGS FOR THE SIX MONTHS ENDED JUNE 30, 1971

	6 MONTHS 1971	6 MONTHS 1970	SECOND QUARTER 1971	SECOND QUARTER 1970
Gross Revenue	13,341,373	12,040,000	7,376,782	7,425,039
Profit from Operations before the Undernoted Items	450,760	861,400	301,288	686,088
Depreciation	286,136	230,000	148,673	113,351
Interest on Term Debt	49,011	33,200	28,409	18,460
Remuneration to Directors (As Directors and as Officers)	92,250	70,000	45,525	35,000
	427,397	333,200	222,607	166,811
Operating Income	23,363	528,200	78,681	519,277
Income from Marketable Securities	274	500	(40)	300
Earnings before Income Taxes	23,637	528,700	78,641	519,577
Provision for Tax Recovery	18,400	--	11,512	--
Provision for Income Taxes	--	272,400	--	267,528
Net Earnings	42,037	256,300	67,129	252,049
Extraordinary Items				
Recovery of Income Tax on Prior Years' Losses	--	152,600	--	125,828
NET EARNINGS	42,037	408,900	67,129	377,877
Earnings Per Share				
Before Extraordinary Items	.07	.53	.11	.53
After Extraordinary Items	.07	.85	.11	.79
Number of Shares Outstanding	579,500	479,500	579,500	479,500